The Fiscal Monitor

A Publication of the Department of Finance

Highlights

August 2006: budgetary surplus of $6 million

There was a budgetary surplus of $6 million in August 2006, compared to a $0.6-billion deficit in August 2005. Revenues increased by $1.1 billion, driven by strong growth in income tax revenues, partially offset by a drop in goods and services tax (GST) revenues, reflecting the cut to the GST rate on July 1, 2006. Program expenses increased by $0.5 billion, or 3.6 per cent, reflecting increases in transfers to persons, which now include payments under the new Universal Child Care Benefit (UCCB) program. Public debt charges were down $17 million.

April to August 2006: budgetary surplus of $6.7 billion

For the first five months of the 2006–07 fiscal year, the budgetary surplus is estimated at $6.7 billion, up $2.0 billion from the $4.8-billion surplus in the same period of 2005–06. Revenues were up $5.2 billion, or 6.0 per cent, driven by strong growth in income tax revenues, slightly offset by declines in excise tax and employment insurance (EI) premium revenues. Program expenses were up $3.2 billion, or 4.6 per cent, due to both higher transfers and other program expenses. Public debt charges were up $0.1 billion.

The results to date are not representative of results expected for the fiscal year as a whole, as they do not yet reflect the full impact of the measures announced in Budget 2006. A full and complete update of the fiscal outlook will be provided in the upcoming *Economic and Fiscal Update*.

August 2006

There was a budgetary surplus of $6 million in August 2006, compared to a $0.6-billion deficit in August 2005.

Budgetary revenues increased by $1.1 billion, or 6.6 per cent, to $17.1 billion.

- Personal income tax revenues were up $0.5 billion, or 6.6 per cent, reflecting growth in employment and wages and salaries.
- Corporate income tax revenues increased by $0.7 billion, or 52.4 per cent, in part reflecting higher payments from the resource sector.
- Other income tax revenues—withholdings from non-residents—rose $0.2 billion, or 61.2 per cent.
- Excise taxes and duties were down $0.4 billion, driven by a $0.5-billion or 18.7-per-cent drop in GST revenues, reflecting the impact of the 1-percentage-point reduction in the GST rate effective July 1, 2006.
- EI premiums declined by 6.7 per cent, reflecting the decline in the premium rate from $1.95 to $1.87 per $100 of insurable earnings, effective January 1, 2006.

- Other revenues, consisting of net profits from enterprise Crown corporations, revenues of consolidated Crown corporations, sales of goods and services, returns on investments, foreign exchange revenues, revenues of certain foundations and miscellaneous revenues, were up $0.3 billion. This component of revenues is volatile.

Program expenses in August 2006 were $14.3 billion, up $0.5 billion or 3.6 per cent from August 2005, largely reflecting increases in transfers to persons and increased operating expenses of National Defence and other departments.

Transfer payments were up $0.3 billion, or 3.6 per cent.

- Transfers to persons, consisting of elderly benefits, EI benefits and children's benefits, were up $308 million, or 7.1 per cent. Elderly benefits increased by 4.9 per cent due to both higher average benefits, which are indexed to Consumer Price Index inflation, and an increase in the number of individuals eligible for benefits. EI benefit payments decreased by 1.7 per cent, reflecting declines in regular and maternity benefits. Children's benefits consist of the Canada Child Tax Benefit and the new UCCB, which began on July 1, 2006. Children's benefits were up $210 million, largely reflecting $197 million in transfers under the UCCB program.
- Transfers to other levels of government, consisting of transfers in support of health and other social programs (Canada Health Transfer and Canada Social Transfer), fiscal transfers, transfers to provinces on behalf of Canada's cities and communities, transfers for early learning and child care and Alternative Payments for Standing Programs, were down $39 million, or 1.2 per cent.
- Subsidies and other transfers increased by $47 million, or 3.7 per cent.

Other program expenses consist of transfers to Crown corporations and operating expenses for departments and agencies, including National Defence. They also reflect the ongoing assessment of the Government's liabilities. These expenses increased by $187 million, or 3.7 per cent.

Public debt charges decreased by $17 million.

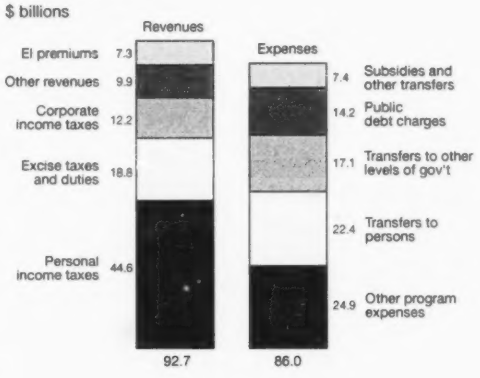
April to August 2006

In the first five months of the 2006–07 fiscal year, there was a budgetary surplus of $6.7 billion, up $2.0 billion from the $4.8-billion surplus reported in the same period of 2005–06.

Budgetary revenues were up $5.2 billion, or 6.0 per cent, to $92.7 billion.

- Personal income tax revenues rose $4.3 billion, or 10.8 per cent, reflecting solid growth in employment and wages and salaries combined with the progressivity of the personal income tax system.
- Corporate income tax revenues were up $1.2 billion, or 11.2 per cent, reflecting a higher corporate instalment payment base and lower refunds to date, which in turn reflect profit growth in 2005 and ongoing gains in corporate profitability this year.
- Other income tax revenues rose $0.3 billion, or 17.8 per cent.

Revenues and expenses
(April to August 2006)



- Excise taxes and duties were down $0.5 billion, or 2.7 per cent, primarily due to a $0.6-billion drop in GST revenues, reflecting the impact of the GST rate reduction on July 1, 2006. Sales and excise tax revenues were also lower, declining by $0.1 billion, or 1.4 per cent. Customs import duties were up $0.1 billion while revenues from the Air Travellers Security Charge were up $6 million.
- EI premium revenues decreased by 7.0 per cent, reflecting the decline in the premium rate from $1.95 to $1.87 per $100 of insurable earnings, effective January 1, 2006.
- Other revenues rose $0.4 billion, or 5.8 per cent.

Program expenses in the April to August 2006 period were $71.8 billion, up $3.2 billion or 4.6 per cent from the same period of 2005–06, due to both higher transfers and increased operating costs of departments and agencies, including National Defence. Public debt charges increased by $0.1 billion.

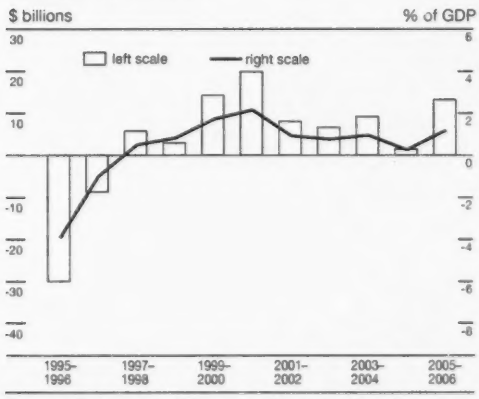
Transfer payments, which account for about two-thirds of total program expenses, increased by $2.2 billion, or 5.0 per cent.

- Transfers to persons advanced by 3.5 per cent. Elderly benefits were up 4.7 per cent while EI benefits were down 5.6 per cent. The year-to-date decline in EI benefits is mainly attributable to a decline in regular benefits, which is in turn due to improved labour market conditions compared to the same period in 2005–06. Maternity and parental benefits are also down year-to-date due to the implementation of the Quebec Parental Insurance Plan, effective January 1, 2006. Children's benefits increased by 13.3 per cent, largely reflecting transfers under the new UCCB, which began on July 1, 2006.
- Transfers to other levels of government were up $1.5 billion, or 9.3 per cent, largely due to the impact of the 2004 agreement on health care, as well as a $650-million transfer to provinces and territories in July 2006 for early learning and child care.
- Subsidies and other transfers increased by $5 million, or 0.1 per cent.

Other program expenses increased by $1.0 billion, or 4.0 per cent, reflecting an increase in the operating costs of departments and agencies, including National Defence. Crown corporation expenses declined by $0.1 billion, or 4.1 per cent.

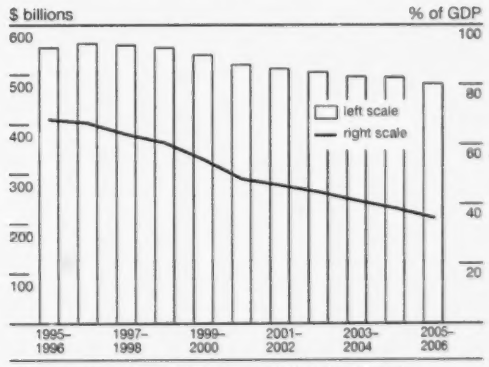
Public debt charges were up 0.6 per cent due to an increase in the average effective interest rate on the stock of interest-bearing debt.

Budgetary balance



Sources: Department of Finance and Statistics Canada.

Federal debt (accumulated deficit)



Sources: Department of Finance and Statistics Canada.

Financial source of $4.1 billion for April to August 2006

The budgetary balance is presented on a full accrual basis of accounting, recording government assets and liabilities when they are receivable or incurred, regardless of when the cash is received or paid. In contrast, the financial source/requirement measures the difference between cash coming in to the Government and cash going out. This measure is affected not only by changes in the budgetary balance but also by the cash source/requirement resulting from the Government's investing activities through its acquisition of capital assets and its loans, financial investments and advances, as well as from other activities, including payment of accounts payable and collection of accounts receivable, foreign exchange activities, and the amortization of its tangible capital assets. The difference between the budgetary balance and financial source/requirement is recorded in non-budgetary transactions.

Non-budgetary transactions resulted in a net requirement of $2.6 billion in the April to August period, down from a $10.2-billion requirement in the same period of 2005–06. The decrease in the net requirement largely reflects a number of one-time payments, such as a $2.8-billion transfer under the Offshore Revenues Accords made in June 2005 upon passage of the Budget Implementation Act, 2005.

With a budgetary surplus of $6.7 billion and a net requirement of $2.6 billion from non-budgetary transactions, there was a financial source of $4.1 billion in the first five months of 2006–07 compared to a financial requirement of $5.4 billion in the same period of 2005–06.

Net financing activities down $17.8 billion

The Government used this financial source of $4.1 billion and a reduction in its cash balances of $13.7 billion to reduce its market debt by $17.8 billion by the end of August 2006, largely through a reduction of treasury bills. The level of cash balances varies from month to month based on a number of factors including periodic large debt maturities, which can be quite volatile on a monthly basis. Cash balances at the end of August stood at $4.3 billion.

Table 1
Summary statement of transactions

	August		April to August	
	2005	2006	2005–06	2006–07
	($ millions)			
Budgetary transactions				
Revenues	16,048	17,115	87,522	92,747
Expenses				
Program expenses	-13,839	-14,342	-68,649	-71,828
Public debt charges	-2,784	-2,767	-14,103	-14,192
Budgetary balance (deficit/surplus)	-575	6	4,770	6,727
Non-budgetary transactions	562	1,210	-10,206	-2,586
Financial source/requirement	-13	1,216	-5,436	4,141
Net change in financing activities	3,942	-1,006	-4,397	-17,819
Net change in cash balances	3,929	210	-9,833	-13,678
Cash balance at end of period			7,290	4,253

Note: Positive numbers indicate net source of funds. Negative numbers indicate net requirement for funds.

Table 2
Budgetary revenues

	August			April to August		
	2005	2006	Change	2005–06	2006–07	Change
	($ millions)		(%)	($ millions)		(%)
Tax revenues						
Income taxes						
Personal income tax	7,707	8,217	6.6	40,291	44,634	10.8
Corporate income tax	1,272	1,938	52.4	10,949	12,177	11.2
Other income tax	260	419	61.2	1,575	1,855	17.8
Total income tax	9,239	10,574	14.4	52,815	58,666	11.1
Excise taxes and duties						
Goods and services tax	2,802	2,279	-18.7	13,716	13,144	-4.2
Customs import duties	332	362	9.0	1,378	1,484	7.7
Sales and excise taxes	821	879	7.1	4,042	3,985	-1.4
Air Travellers Security Charge	29	28	-3.4	149	155	4.0
Total excise taxes and duties	3,984	3,548	-10.9	19,285	18,768	-2.7
Total tax revenues	13,223	14,122	6.8	72,100	77,434	7.4
Employment insurance premiums	1,297	1,210	-6.7	7,863	7,312	-7.0
Other revenues	1,528	1,783	16.7	7,559	8,001	5.8
Total budgetary revenues	16,048	17,115	6.6	87,522	92,747	6.0

Note: Totals may not add due to rounding.

Table 3

Budgetary expenses

	August			April to August		
	2005	2006	Change	2005–06	2006–07	Change
	($ millions)		(%)	($ millions)		(%)
Transfer payments						
Transfers to persons						
Elderly benefits	2,404	2,522	4.9	11,978	12,545	4.7
Employment insurance benefits	1,180	1,160	-1.7	5,808	5,485	-5.6
Children's benefits	739	949	28.4	3,846	4,356	13.3
Total	4,323	4,631	7.1	21,632	22,386	3.5
Transfers to other levels of government						
Support for health and other social programs						
Canada Health Transfer	1,584	1,679	6.0	7,917	8,392	6.0
Canada Social Transfer	685	709	3.5	3,427	3,542	3.4
Total	2,269	2,388	5.2	11,344	11,934	5.2
Fiscal transfers	1,062	1,081	1.8	5,392	5,523	2.4
Canada's cities and communities	112	0	-100.0	112	306	173.2
Early learning and child care	0	0	n/a	0	650	n/a
Alternative Payments for Standing Programs	-196	-261	33.2	-1,197	-1,305	9.0
Total	3,247	3,208	-1.2	15,651	17,108	9.3
Subsidies and other transfers						
Agriculture	97	89	-8.2	463	399	-13.8
Foreign Affairs and International Trade	317	138	-56.5	997	845	-15.2
Health	81	82	1.2	682	718	5.3
Human Resources Development	33	86	160.6	610	682	11.8
Indian and Northern Development	338	355	5.0	1,984	2,003	1.0
Industry and Regional Development	211	224	6.2	786	747	-5.0
Other	193	343	77.7	1,919	2,052	6.9
Total	1,270	1,317	3.7	7,441	7,446	0.1
Total transfer payments	8,840	9,156	3.6	44,724	46,940	5.0
Other program expenses						
Crown corporation expenses						
Canadian Broadcasting Corporation	140	118	-15.7	595	595	0.0
Canada Mortgage and Housing Corporation	142	158	11.3	846	798	-5.7
Other	268	211	-21.3	1,501	1,429	-4.8
Total	550	487	-11.5	2,942	2,822	-4.1
Defence	1,182	1,344	13.7	5,649	6,175	9.3
All other departments and agencies	3,267	3,355	2.7	15,334	15,891	3.6
Total other program expenses	4,999	5,186	3.7	23,925	24,888	4.0
Total program expenses	13,839	14,342	3.6	68,649	71,828	4.6
Public debt charges	2,784	2,767	-0.6	14,103	14,192	0.6
Total budgetary expenses	16,623	17,109	2.9	82,752	86,020	3.9

Note: Totals may not add due to rounding.

Table 4

The budgetary balance and financial source/requirement

	August		April to August	
	2005	2006	2005–06	2006–07
	($ millions)			
Budgetary balance (deficit/surplus)	-575	6	4,770	6,727
Non-budgetary transactions				
Capital investing activities	-136	-114	-117	-413
Other investing activities	170	-47	-940	417
Pension and other accounts	-447	1,358	-1,688	1,482
Other activities				
Accounts payable, receivables, accruals and allowances	1,431	-1,159	-10,266	-6,837
Foreign exchange activities	-728	932	1,540	1,579
Amortization of tangible capital assets	272	240	1,265	1,186
Total other activities	975	13	-7,461	-4,072
Total non-budgetary transactions	562	1,210	-10,206	-2,586
Net financial source/requirement	-13	1,216	-5,436	4,141

Note: Totals may not add due to rounding.

Table 5

Financial source/requirement and net financing activities

	August		April to August	
	2005	2006	2005–06	2006–07
	($ millions)			
Net financial source/requirement	-13	1,216	-5,436	4,141
Net increase (+)/decrease (-) in financing activities				
Unmatured debt transaction				
Canadian currency borrowings				
Marketable bonds	2,261	3,051	1,383	1,620
Treasury bills	1,800	-2,700	-1,800	-13,800
Canada Savings Bonds	-84	-77	-392	-379
Other	-1	-105	-142	-1,015
Total	3,976	169	-951	-13,574
Foreign currency borrowings	-87	-945	-3,591	-3,855
Total	3,889	-776	-4,542	-17,429
Cross-currency swap revaluation	0	-121	-5	-121
Unamortized discounts on debt issues	39	-102	66	-223
Obligations related to capital leases	14	-7	84	-46
Net change in financing activities	3,942	-1,006	-4,397	-17,819
Change in cash balance	3,929	210	-9,833	-13,678

Note: Totals may not add due to rounding.

Table 6

Condensed statement of assets and liabilities

	March 31, 2006	August 31, 2006	Change
		($ millions)	
Liabilities			
Accounts payable, accruals and allowances	101,432	88,630	-12,802
Interest-bearing debt			
Unmatured debt			
Payable in Canadian dollars			
Marketable bonds	261,134	262,754	1,620
Treasury bills	131,597	117,797	-13,800
Canada Savings Bonds	17,342	16,963	-379
Other	3,102	2,087	-1,015
Subtotal	413,175	399,601	-13,574
Payable in foreign currencies	14,085	10,230	-3,855
Cross-currency swap revaluation account	-2,258	-2,379	-121
Unamortized discounts and premiums on market debt	-6,780	-7,003	-223
Obligations related to capital leases	2,927	2,881	-46
Total unmatured debt	421,149	403,330	-17,819
Pension and other accounts			
Public sector pensions	131,062	131,957	895
Other employee and veteran future benefits	43,369	44,031	662
Other pension and other accounts	5,493	5,418	-75
Total pension and other accounts	179,924	181,406	1,482
Total interest-bearing debt	601,073	584,736	-16,337
Total liabilities	702,505	673,366	-29,139
Financial assets			
Cash and accounts receivable	82,843	63,200	-19,643
Foreign exchange accounts	40,827	39,248	-1,579
Loans, investments and advances (net of allowances)	41,889	41,472	-417
Total financial assets	165,559	143,920	-21,639
Net debt	536,946	529,446	-7,500
Non-financial assets	55,447	54,674	-773
Federal debt (accumulated deficit)	481,499	474,772	-6,727

For additional copies or subscription inquiries, please contact the Distribution Centre at 613-995-2855.
For other inquiries about this publication, contact Chris Forbes at 613-995-6391.
Also available on the Internet (including advance tentative release dates) at www.fin.gc.ca.
Ce document est également offert en français.
October 2006